

Federal Fiscal Programs

THE fiscal year 1984 budget, presented to Congress in late January, carries forward the basic fiscal policy introduced by the administration in 1981. The main features of the new budget are:

- A continued rapid increase in national defense spending;
- A decline in nondefense spending other than net interest;
- Adherence to the last stage of the income tax cut provided for by the Economic Recovery Tax Act of 1981, although some increases in social security taxes and other taxes are proposed.

National defense spending increases over 14 percent in 1984 (about 10.0 percent in real terms, according to the administration). Increases are provided for virtually all weapons-systems projects already under way; no new projects are proposed. Major emphasis continues to be on improving the combat readiness and training of forces, modernizing the various existing weapons systems, and increasing naval strength.

Nondefense spending, other than for net interest, declines slightly; in real terms, the decline is 5 percent. The administration's proposed pro-

gram reductions more than account for the decline. Major reductions are in social security (excluding medicare), farm price support programs, and in housing assistance.

The budget incorporates the recommendations of the National Commission on Social Security Reform. The major recommendations include: (1) reschedule current tax rate increases; (2) tax one-half of social security bene-

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Table 1.—Economic Assumptions Underlying the Fiscal Year 1984 Budget

	Calendar year			
	Actual		Estimates	
	1981	1982	1983	1984
	Billions of dollars			
GNP:				
Current dollars.....	2,938	3,058	3,262	3,566
1972 dollars.....	1,503	1,476	1,496	1,555
Incomes:				
Personal income.....	2,416	2,570	2,727	2,935
Wages and salaries.....	1,494	1,560	1,640	1,780
Corporate profits before taxes.....	232	175	177	206
	Percent change from preceding year			
GNP in current dollars:				
Annual average.....	11.6	4.1	6.7	9.3
Fourth quarter.....	9.6	3.3	8.8	9.2
GNP in 1972 dollars:				
Annual average.....	1.9	-1.8	1.4	3.9
Fourth quarter.....	.7	-1.2	3.1	4.0
GNP deflator:				
Annual average.....	9.4	6.0	5.2	5.2
Fourth quarter.....	8.9	4.6	5.6	5.0
Consumer price index:				
Annual average.....	10.3	6.0	4.9	4.6
Fourth quarter.....	9.4	4.4	5.0	4.4
	Percent			
Unemployment rate:				
Annual average.....	7.5	9.5	10.7	9.9
Fourth quarter.....	8.1	10.5	10.4	9.5
Insured unemployment rate: ¹				
Annual average.....	3.5	4.7	5.3	4.7
Fourth quarter.....	3.7	5.2	5.2	4.5
Interest rate, 91-day Treasury bills: ²	14.1	10.7	8.0	7.9

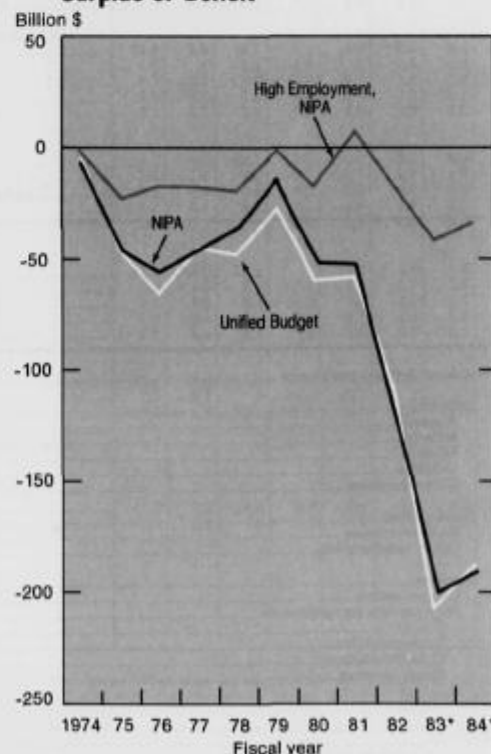
1. Insured unemployment under the State regular unemployment insurance program, excluding recipients of extended benefits, as percentage of covered employment under that program.

2. Average rate on new issues within the year. The estimates assume, by convention, that interest rates vary with the rate of inflation. They do not represent a forecast of interest rates.

Source: "The Budget of the United States Government, Fiscal Year 1984."

CHART 1

Federal Fiscal Position: Surplus or Deficit



*Estimates from Office of Management and Budget, and BEA.

U.S. Department of Commerce, Bureau of Economic Analysis

83-2-1

Social Security Recommendations

The National Commission on Social Security Reform was established in December 1981 and given a mandate to review the financial condition of the social security trust funds, analyze potential solutions to ensure the solvency of the funds and the provision of appropriate benefits, and provide recommendations. The Commission met throughout 1982 and made their recommendations in early 1983; the budget incorporates these recommendations.

The major recommendations of the Commission increase budget receipts \$8.2 billion in fiscal year 1984.

● **Reschedule increases in the social security tax rate (\$5.5 billion).** Under current law, the tax rate is scheduled to increase to 11.4 percent from 10.8 percent on January 1, 1985 and to 12.4 percent on January 1, 1990. Under the recommendations, the tax rate will increase to 11.4 percent on January 1, 1984, 12.12 percent on January 1, 1988, and 12.4 percent on January 1, 1990. For 1984 only, employees would be allowed a refundable tax credit in the amount of the increase in employee taxes over what would have been payable under current law; under the recommendation, the employee tax rate will increase 0.3 percentage points to 5.7 percent.

● **Tax social security benefits (\$1.1 billion).** Under current law, social security benefits are exempt from Federal income tax provisions. Under the recommendations, single taxpayers with more than \$20,000 of

adjusted gross income (\$25,000 for married couples filing a joint return) from non-social security sources will be required to include 50 percent of their benefits in adjusted gross income.

● **Broaden coverage (\$1.1 billion).** Under current law, Federal civilian employees are exempt from social security coverage, and State and local governments and nonprofit organizations are not required to participate in the program. Under the recommendations, mandatory coverage will be extended to all new Federal employees and to all employees of nonprofit organizations, effective January 1, 1984. State and local governments currently participating will no longer be allowed to withdraw.

● **Increase the self-employed tax rate (\$0.6 billion).** Under current law, self-employed individuals pay 75 percent of the combined employer-employee tax rate. Under the recommendations, self-employed individuals will be required to pay the combined rate, effective January 1, 1984. One-half of the combined rate will be deductible as a business expense in calculating taxable income.

The major recommendation of the Commission affecting expenditures in fiscal year 1984 is delaying the cost-of-living adjustment to benefits for 6 months from July 1983 to January 1984. Thereafter, cost-of-living increases would occur in January. This recommendation reduces social security benefits \$2.1 billion in 1983 and \$4.2 billion in 1984.

fits above specified income levels; (3) broaden coverage to include new Federal employees and all uncovered nonprofit employees; (4) increase the self-employed tax rate; and (5) delay

the cost-of-living adjustment to benefits for 6 months. (See "Social Security Recommendations" above.)

Economic assumptions

The economic assumptions underlying the fiscal year 1984 budget are shown in table 1. GNP in constant dollars is forecast to increase 3.1 percent from the fourth quarter of 1982 to the fourth quarter of 1983 and 4.0 percent to the fourth quarter of 1984. According to the Council of Economic Advisers, "prospects for a moderate, sustainable economic recovery beginning early in 1983 are good." This view is based on a turnaround in the inventory cycle brought about by continuing strength in personal consumption expenditures and defense purchases. Cuts in production and increases in sales by the end of 1982

brought inventories more in line with sales; consequently, the forecast is based on the expectation that future increases in consumer spending will result in increased production, income, and employment. The pace of the 1983 recovery is likely to be moderate by historical standards; capital spending will be restrained by low capacity utilization and the need to build corporate liquidity; exports will be limited by the worldwide recession and the lagged effect of the appreciation of the dollar. Prices, as measured by the GNP deflator, increase 5.6 percent to the fourth quarter of 1983 and 5.0 percent to the fourth quarter of 1984. The unemployment rate is forecast to be 10.4 percent in the fourth quarter of 1983 and 9.5 percent in the fourth quarter of 1984. The rate is expected to reach about 11 percent in the first half of 1983 and decline thereafter by about one-quarter of a percentage point per quarter.

Table 2.—Federal Government Receipts and Expenditures
(Billions of dollars)

	Fiscal year		
	Actual		Estimates
	1982	1983	1984
Unified budget			
Receipts	617.8	597.5	689.7
Outlays	728.4	806.2	848.5
Surplus or deficit (—)	-110.6	-208.7	-158.8
National income and product accounts			
Receipts	619.0	626.5	686.2
Expenditures	736.7	829.0	877.5
Surplus or deficit (—)	-120.7	-202.5	-191.3
High-employment surplus or deficit (—)	-18.7	-42.4	-84.7

Sources: "The Budget of the United States Government, Fiscal Year 1984," and the Bureau of Economic Analysis.

Unified budget

The unified budget deficit decreases from \$207.7 billion in fiscal year 1983 to \$188.8 billion in fiscal year 1984 (table 2 and chart 1).

Receipts increase \$62.2 billion—or 10.5 percent—in 1984, to \$659.7 billion. Receipts in 1983 are \$597.5 billion, down 3.3 percent from 1982. Tax reductions provided under the Economic Recovery Tax Act of 1981 (ERTA) reduce receipts \$130.3 billion in 1984 and \$82.6 billion in 1983. Tax increases provided under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Highway Revenue Act of 1982 raise receipts \$42.1 billion in 1984 and \$19.0 billion in 1983. Proposed legislation, including the recommendations of the National Commission on Social Security Reform, raise receipts, on balance, \$11.2 billion in 1984.

Outlays increase \$43.3 billion—or 5.4 percent—in 1984, to \$848.5 billion. Outlays in 1983 are \$805.2 billion, up 10.5 percent from 1982. Two functions—national defense and net interest—more than account for the 1984 increase; nearly three-quarters of the increase is for national defense and about one-third is for net interest. All other functions decline on balance. The administration is again proposing various outlay reductions; these total \$31.8 billion in 1984 and most require legislation.

Current services estimates

Current services estimates show what receipts and outlays would be without policy changes. They are neither recommended amounts nor forecasts, but rather are a base with which administration or congressional proposals can be compared. The level of outlays are those needed to maintain ongoing Federal programs and activities at 1983 levels in real terms. The major exception is for the military functions of the Department of Defense. For those functions, the 1983 estimate is based on enacted levels resulting from congressional actions last year; the 1984 estimate is that presented by the administration and used by the Congress in budget deliberations last year.

Unified budget receipts in 1984 are \$10.9 billion higher than current services receipts, largely due to the re-

scheduling of the January 1985 social security tax rate increase to January 1984 (table 3). Other proposals that raise unified budget receipts include taxing employer-paid health insur-

Table 3.—Relation of Current Services Budget to Unified Budget

	Fiscal year	
	1982	1984
Receipts		
Current services estimate	\$597.5	\$659.7
Plus: Proposed legislation:		
Social security		8.2
Taxation of health insurance premiums		2.3
Civil service retirement		1.2
Other		-0.5
Equals: Unified budget	\$607.6	\$669.7
Outlays		
Current services estimate	\$805.2	\$848.5
Plus: Proposed program increases:		
Unemployment compensation		1.9
General purpose fiscal assistance		1.0
Payments for employee retirement		0.9
Social services		0.8
Guaranteed student loans		0.4
Health care services		0.4
Other		0.5
Proposed program reductions:		
National defense		-5.9
Military and civilian pay raises		-0.9
Military retired pay		-1.6
Other		-1.1
Social security		-6.0
Farm price support		-0.5
Housing assistance		-2.2
Net interest paid		-2.1
Land management		-1.1
Pay raises		-1.9
Food stamps		-0.8
Student financial assistance		-0.7
Postal Service payments		-0.6
Railroad retirement		-0.6
Other		-12.5
Equals: Unified budget	\$806.2	\$848.5

Table 4.—Relation of Federal Government Receipts in the National Income and Product Accounts to the Unified Budget

	Fiscal year		
	1982	1983	1984
Receipts			
Unified budget receipts	\$617.5	\$597.5	\$659.7
Less: Coverage differences:			
Financial transactions	1.8	1.4	1.6
Plus: Netting differences:			
Contributions to government employee retirement funds	10.7	12.2	14.8
Other	9.3	11.7	13.3
Timing differences:			
Corporate income tax, Federal and State	-10.1	3.0	-4.2
Unemployment insurance taxes	-3	0	0
Withheld personal income tax and social security contributions	-4.8	3.4	3.4
Excise taxes	-0.5	1.5	0
Other			
Miscellaneous	0		0
Equals: Federal Government receipts, NIPA	\$619.0	\$628.6	\$686.3

ance premiums and increasing civil service retirement contributions.

Unified budget outlays are \$31.8 billion lower than current services outlays because proposed program reductions (\$39.8 billion) exceed proposed increases (\$8.0 billion). Nondefense programs account for about 80 per-

Table 5.—Relation of Federal Government Expenditures in the National Income and Product Accounts to the Unified Budget

	Fiscal year		
	1982	1983	1984
Expenditures			
Unified budget outlays	\$805.2	\$848.5	\$848.5
Less: Coverage differences:			
Geographic	4.6	4.3	4.9
Off-budget Federal entities	-17.3	-17.0	-14.0
Other	0	0	0
Financial transactions:			
Net lending	19.0	18.1	18.2
Other	0	0	0
Net purchases of land:			
Outer Continental Shelf	-2.7	-8.8	-7.9
Other	0	-1	-4
Plus: Netting differences:			
Contributions to government employee retirement funds	10.7	12.2	14.8
Other	9.3	11.7	13.3
Timing differences:			
National defense purchases	-1.2	-1.7	-2.6
Other	-3.0	-2	-9
Miscellaneous	0	0	0
Equals: Federal Government expenditures, NIPA	\$799.3	\$839.8	\$877.3

Table 6.—Breakdown of Changes in Federal Receipts, NIPA Basis

	Change from preceding fiscal year		
	1982	1983	1984
Total receipts			
Total receipts	4.3	9.5	67.3
Due to tax bases	24.6	30.0	67.7
Due to tax changes	-20.3	-20.5	-10.0
Enacted	-20.3	-20.5	-25.2
Proposed			15.2
Personal tax and non-tax receipts	11.4	-10.1	11.2
Due to tax bases	33.3	34.4	36.1
Due to tax changes	-21.9	-34.5	-27.9
Enacted	-21.9	-34.5	-27.7
Proposed			1.8
Corporate profit tax receipts	-20.6	4	0.9
Due to tax bases	-16.6	0	11.5
Due to tax changes	-4.0	-4	-2.6
Enacted	-4.0	-4	-2.4
Proposed			-0.2
Indirect business tax and recent accounts	-5.9	4.6	4.1
Due to tax bases	-5.1	-2.2	0
Due to tax changes	0	6.7	2.9
Enacted	0	6.7	2.9
Proposed			0
Contributions for social insurance	18.8	14.7	28.5
Due to tax bases	8.2	7.8	18.0
Due to tax changes	10.6	7.7	15.8
Enacted	10.6	7.7	15.0
Proposed			11.0

1. Consists of all tax changes since fiscal year 1981.

Table 7.—Selected Tax Changes, NIPA Basis

(Billions of dollars)

	Fiscal year				Calendar year							
	1983	1984	1985	1984	Seasonally adjusted at annual rates							
					1983				1984			
					I	II	III	IV	I	II	III	IV
Direct impact on Federal sector deficit, NIPA basis ¹	-58.1	-68.4	-83.5	-63.3	-61.6	-61.3	-61.7	-68.3	-68.2	-63.4	-64.1	-67.1
Personal tax and nontax receipts	-61.4	-93.1	-98.6	-84.5	-52.7	-57.4	-75.1	-81.3	-59.4	-93.2	-91.9	-96.6
Economic Recovery Tax Act	-68.4	-108.3	-98.8	-111.4	-67.5	-62.1	-68.2	-102.1	-105.3	-119.8	-112.7	-116.7
Withheld income tax rate reductions and other	-48.4	-80.0	-66.8	-81.9	-36.7	-37.5	-75.5	-77.8	-78.2	-80.3	-82.9	-84.6
October 1981	-16.8	-16.8	-15.5	-17.0	-16.1	-16.4	-16.7	-18.9	-18.4	-18.8	-17.8	-17.5
July 1982	-20.8	-22.7	-21.2	-23.2	-21.4	-21.9	-21.4	-21.9	-22.5	-23.0	-22.5	-24.0
July 1983	-9.2	-9.0	-18.6	-29.3	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
Other	-1.2	-1.7	-1.3	-1.8	-1.1	-1.2	-1.4	-1.5	-1.6	-1.7	-1.9	-2.0
Declarations and net settlements	-20.6	-25.0	-29.6	-25.6	-18.6	-22.0	-20.1	-21.5	-23.4	-25.3	-25.9	-27.4
Rate reductions	-16.9	-13.0	-10.9	-12.8	-10.2	-10.7	-10.2	-11.5	-11.7	-11.9	-12.1	-12.3
Married couples deduction	-2.0	-6.2	-3.6	-8.2	-2.8	-2.8	-2.4	-4.0	-4.6	-5.0	-5.4	-5.9
Accelerated cost recovery system	-3.9	-4.3	-2.9	-4.9	-2.4	-2.7	-3.1	-4.4	-3.7	-4.1	-4.5	-4.9
Tax-exempt certificates	-1.7	-2	-1.7	-3	-2.4	-4.1	-1	-2.7	-3	-3.5	-3.9	-4.3
Other	-2.1	-3.7	-2.1	-3.7	-1.5	-1.9	-2.3	-2.7	-3.1	-3.5	-3.9	-4.3
Estate and gift	-2.4	-3.7	-2.8	-4.0	-2.3	-2.8	-2.3	-2.5	-3.5	-3.8	-3.9	-4.7
Tax Equity and Fiscal Responsibility Act	8.5	15.9	18.9	15.5	4.9	5.3	23.2	21.6	15.4	15.4	15.4	15.6
Withheld	8.4	21.1	11.7	21.3	2.0	2.1	21.5	21.1	20.5	21.8	21.4	21.9
Interest and dividends	6.8	18.7	9.5	18.5	1.9	1.9	18.9	18.7	18.4	18.6	18.9	19.1
Other	1.6	2.4	2.2	2.0	2.0	2.1	2.3	2.4	2.4	2.4	2.5	2.6
Declarations and net settlements	1.3	-5.1	1.9	-6.1	2.5	2.9	3.8	2	-6.7	-5.9	-6.3	-6.6
Interest and dividends	-3	-11.5	-9	-11.9	-8	-8	-8	-7.7	-11.2	-11.8	-12.1	-12.7
Increased enforcement	1.5	1.3	1.5	1.5	1.5	1.5	1.7	1.5	1.5	1.5	1.6	1.6
Medical deduction	1	1.5	1	1.5	1	1	1	1	1	1	1	1
Other	1.1	2.5	1.1	2.9	1	1.1	1.1	1.2	2.5	2.5	2.9	3.2
Estate and gift	2	3	3	3	3	3	3	3	3	3	3	3
Highway Revenue Act	-5	-1.0	-5	-1.6	-5	-5	-7	-8	-1.0	-1.0	-1.0	-1.0
Legislation proposed	1.8	1.8	1.8	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Withheld health insurance	1.8	1.8	1.8	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Declarations and net settlements	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
One-half social security	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Tuition tax credit	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Other	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Corporate profits tax receipts	-4.5	-11.0	-9.3	-10.7	-6.1	-6.4	-10.7	-12.9	-11.4	-10.6	-10.3	-10.8
Economic Recovery Tax Act	-17.1	-35.5	-18.8	-26.6	-16.4	-18.6	-21.5	-25.7	-25.2	-25.1	-27.1	-28.8
Accelerated cost recovery system	-15.9	-22.7	-18.6	-24.5	-14.8	-17.4	-20.3	-22.8	-23.1	-24.0	-25.0	-25.8
Other	-1.2	-1.9	-1.2	-2.1	-1.2	-1.3	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Tax Equity and Fiscal Responsibility Act	8.7	14.7	10.4	16.2	9.4	10.3	10.9	11.8	14.1	15.8	17.2	17.7
Insurance provisions	1.4	2.3	1.6	2.8	1.4	1.5	1.5	1.5	2.1	2.5	2.8	2.9
Safe harbor leasing	1.9	3.2	2.1	3.7	1.8	2.0	2.2	2.4	2.8	3.4	4.0	4.6
Long-term contracts	1.3	2.7	1.8	2.9	1.3	1.7	2.0	2.3	2.6	2.9	3.1	3.3
Investment tax credit	1	1.7	1	2.0	1	1	1	1	1.4	1.4	2.1	2.4
Other	2.5	4.9	4.3	5.1	4.3	4.3	4.3	4.4	5.0	6.1	5.1	5.2
Highway Revenue Act	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Legislation proposed	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Indirect business tax and nontax receipts	7.6	11.5	9.6	11.4	4.7	11.7	10.8	11.1	11.4	11.5	11.4	11.4
Economic Recovery Tax Act	-7	-6	-7	-6	-7	-7	-7	-7	-6	-6	-6	-6
Withheld profit tax	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Telephone excise	5	7	6	7	6	6	6	6	7	7	7	7
Tax Equity and Fiscal Responsibility Act	4.8	5.2	4.9	5.3	4.8	4.9	4.9	5.0	5.3	5.3	5.3	5.3
Airport and airway	1.1	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2
Cigarette excise	1.9	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Withheld profit tax	1	1	1	1	1	1	1	1	1	1	1	1
Telephone excise	9	1.9	1.2	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Highway Revenue Act	2.3	5.4	4.2	5.5	6.1	5.3	5.3	5.4	5.4	5.5	5.5	5.5
Administrative action: dairy	9	1.3	1.2	1.2	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.1
Contributions for social insurance	8.3	26.4	19.7	28.5	12.5	12.9	13.3	16.9	29.4	28.9	28.5	31.7
Economic Recovery Tax Act	5	6	6	6	5	5	5	5	6	6	6	6
Railroad retirement	5	6	6	6	5	5	5	5	6	6	6	6
Tax Equity and Fiscal Responsibility Act	2.9	4.4	3.9	4.5	3.7	3.7	4.0	4.3	4.5	4.4	4.5	4.5
State unemployment insurance	1.6	2.4	2.1	2.4	2.0	2.0	2.1	2.3	2.5	2.4	2.4	2.3
Federal employees hospital insurance	1.3	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Supplementary medical insurance	1	1	1	1	1	1	1	1	1	1	1	1
Legislation proposed	11.6	4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
OASDI:												
Jan. 1, 1984 rate increase: 15.4%-16.1%	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Nonprofit institutions, State and local governments, Federal employees	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Self-employed	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Federal civilian retirement	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Enacted social security rate and base increases	6.4	3.8	5.7	11.9	8.4	8.7	8.7	8.9	10.7	11.0	11.0	11.3
Jan. 1, 1982 base increase: \$29,780-\$32,400	2.8	3.3	3.1	3.3	3.0	3.1	3.1	3.2	3.2	3.3	3.3	3.4
Jan. 1, 1983 rate increase: 15.5%-16.4%	1.3	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Jan. 1, 1983 base increase: \$42,490-\$46,700	1.0	3.0	2.9	3.1	2.9	2.9	2.9	3.0	3.0	3.1	3.1	3.2
Jan. 1, 1984 base increase: \$55,780-\$57,800	1.8	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Self-employed increases	1.8	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.5

OASDI—old-age, survivors, disability, and hospital insurance.
 1. The estimates are based on the direct effect only of tax changes at a given level of economic activity. Induced effects are not included here, but are included in total NIPA receipts and the total for each category of receipts shown in table 1B.

cent of the 1984 reductions, with the largest in social security. The unified budget deficit is \$42.7 billion lower than the current services deficit.

Federal sector of the NIPA's

BEA has prepared estimates of the Federal sector on the national income and product accounting (NIPA) basis consistent with the unified budget estimates (table 2). The estimates in this article differ slightly from the preliminary estimates published in late January in the budget; details of the latter are shown in Special Analysis B, "Federal Transactions in the National Income Accounts." The estimates in this article incorporate revised NIPA estimates for the fourth quarter of 1982 and more detailed information about tax changes than in the budget.

Estimates of the Federal sector are integrated conceptually and statistically with the rest of the NIPA's and differ in several respects from the unified budget. Unlike the unified

budget, they exclude financial transactions, such as loans, and record several categories of receipts and expenditures on a timing basis that is different from the budget. (For a more detailed discussion of the differences, see the February 1980 SURVEY OF CURRENT BUSINESS.) Table 4 shows the relation between unified budget and NIPA receipts and table 5 shows the relation between unified budget outlays and NIPA expenditures.

Some transactions are treated differently in the NIPA's and in the unified budget but because they do not result in differences between total receipts or expenditures, they do not show up in the reconciliation tables. An example is the new payment-in-kind (PIK) agriculture program initiated in January 1983 by administrative action. Under this voluntary program, farmers of wheat, feed grains, cotton, and rice will receive these crops, instead of cash diversion payments, in return for setting aside acreage from production. In the unified budget, the PIK will not be treat-

ed as an outlay. In the NIPA's, nondefense purchases—Commodity Credit Corporation inventories—will decline and subsidy payments to farmers (by imputation) will increase by an equal amount, resulting in no change in total Federal sector expenditures. (Elsewhere in the NIPA's, farm inventories increase by the amount of the PIK, and farm income increases by an equal amount. GNP is unchanged because the increase in farm inventories is offset by the decline in nondefense purchases. Farm product is unchanged, but national income and personal income are increased by the amount of the PIK.) PIK amounts to \$1.2 billion in fiscal year 1983 and \$3.8 billion in fiscal year 1984.

Federal receipts on the NIPA basis in 1984 are \$686.2 billion, up \$57.7 billion from 1983 (chart 2). The increase is the net result of a \$67.7 billion increase due to higher tax bases and a \$10.0 billion decrease due to tax changes (table 6). Enacted tax changes reduce receipts \$23.2 billion in 1984; this reduction is the net of

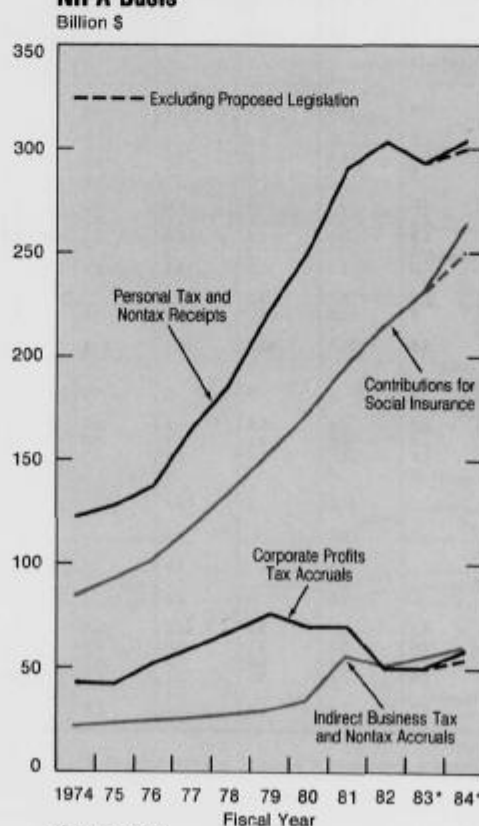
Table 8.—Breakdown of Changes in Federal Expenditures, NIPA Basis

	Change from preceding fiscal year		
	1982	1983	1984
Total expenditures	73.2	89.3	48.3
Purchases of goods and services:			
Pay raises ¹	6.7	3.0	.....
Commodity Credit Corporation	6.7	-3.0	-5.8
Strategic petroleum reserve	-1.0	-1.0	.1
Transfer payments to persons:			
Social Security	23.4	19.0	16.6
Unemployment benefits	6.2	12.8	-7.7
Military and civilian pensions	3.0	2.9	1.9
Food stamps	-2	1.6	-1.1
Grants-in-aid to State and local governments:			
Low income energy assistance	.....	.3	-6
Waste treatment	-1	-6	-3
Public assistance	-3	1.7	.8
Highways	-1.0	.6	3.1
Employment and training	-1.1	-3	.....
Public service employment	-2.1	.....	.....
Net interest paid	16.3	9.9	14.2
Subsidies less current surplus of government enterprises:			
Housing	1.7	1.3	.8
Commodity Credit Corporation	.3	2.2	-1.5
Agricultural subsidies	.1	5.3	-5
Postal Service	-1.7	1.4	.6
All other expenditures ²	16.3	32.2	27.7
National defense	20.9	24.2	29.6
Nondefense	-4.6	8.0	-1.9

1. Consists of pay raises since October 1981.

2. Includes purchases of goods and services, transfer payments, grants-in-aid, and subsidies less current surplus of government enterprises.

CHART 2
Federal Government Receipts, NIPA Basis



*Estimates by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis

Table 9.—Relation of National Defense Purchases in the National Income and Product Accounts to National Defense Outlays in the Unified Budget

	Fiscal year		
	Actual		Estimates
	1982	1983	1984
National defense outlays in the unified budget	187.4	214.8	245.3
Department of Defense, military	182.9	208.9	238.6
Military personnel	42.3	45.3	47.7
Retired military personnel	14.9	16.1	16.8
Operation and maintenance	59.7	64.6	71.6
Procurement	43.3	55.2	68.2
Aircraft	16.8	21.5	27.1
Missiles	4.3	5.8	7.3
Ships	6.7	7.2	8.5
Weapons	2.4	2.8	3.2
Ammunitions	1.6	1.9	2.1
Other	11.5	16.0	20.0
Research, development, test, and evaluation	17.7	21.4	26.3
Other	5.0	4.1	5.8
Civilian and military pay raises ¹	.....	2.2	2.2
Atomic energy and other defense-related activities	4.5	5.9	6.7
Plus: Military assistance outlays	.8	1.5	1.8
Less: Transfer payments to retired military personnel	14.9	16.1	16.8
Grants-in-aid and net interest paid	1.2	1.3	1.5
Timing differences	1.2	1.7	2.5
Other adjustments	-2.1	-2.2	-2.7
Equals: National defense purchases, NIPA	173.0	199.4	229.0

1. Consists of the pay raise effective October 1982.

tax cuts, largely from ERTA, partly offset by tax increases from TEFRA and from the Highway Revenue Act and by social security rate and base increases. (See the August 1981 SURVEY for details on ERTA and the September 1982 SURVEY for details on

TEFRA.) Proposed legislation raises receipts \$13.2 billion in 1984. Table 7 shows the direct impact of selected tax changes on NIPA receipts.

Federal expenditures on the NIPA basis in 1984 are \$877.8 billion, up \$48.8 billion from 1983. Table 8 high-

lights the major factors that contribute to recent changes in Federal Expenditures. The largest in 1984 is a \$29.6 billion increase in national defense "all other expenditures," which consists of national defense expenditures other than the pay raise; this

Table 10.—Federal Government Receipts and Expenditures, NIPA Basis

[Billions of dollars]

	Fiscal year					Calendar year											
	Actual 1982	Estimates		Actual 1982	Estimate 1983	Actual				Estimates							
		1983	1984			1982				1983				1984			
						I	II	III	IV	I	II	III	IV	I	II	III	
Receipts	619.0	628.5	688.2	684.5	688.1	606.9	617.0	612.7	617.3	629.3	640.3	638.2	661.5	688.9	697.3	718.8	
Economic Recovery Tax Act	-36.0	-86.7	-134.7	-44.2	-108.8	-28.2	-34.3	-56.3	-69.2	-73.1	-50.9	-119.9	-125.8	-191.5	-136.1	-189.8	
Tax Equity and Fiscal Responsibility Act	1.4	24.1	69.6	2.7	59.2	1.4	1.5	2.6	5.3	22.7	24.2	43.6	42.6	39.2	40.9	42.5	
Highway Revenue Act		2.3	4.9		3.6						5.4	4.5	4.5	4.4	4.5	4.5	
Legislation proposed			13.2		5.6								2.3	15.0	15.0	15.5	
Other	682.6	689.4	793.7	688.0	702.5	636.7	648.8	668.0	671.0	678.7	691.5	711.9	728.1	752.1	772.1	795.3	
Personal tax and nontax receipts	583.1	589.8	604.2	598.1	598.2	528.9	536.6	536.6	539.2	546.0	557.7	563.9	577.9	599.6	607.8	617.7	
Economic Recovery Tax Act	-25.7	-89.4	-109.2	-29.3	-98.8	-28.5	-34.0	-43.7	-45.1	-57.5	-62.1	-96.2	-102.1	-166.8	-110.9	-112.7	
Tax Equity and Fiscal Responsibility Act		8.5	15.3		13.9					4.9	5.3	23.9	21.8	16.4	15.4	15.4	
Highway Revenue Act		-	-1.0		-					-	-	-	-	-1.0	-1.0	-1.0	
Legislation proposed			1.8		-								2.3	2.4	2.4	2.4	
Other	528.6	554.4	597.3	588.4	598.9	513.4	523.6	539.3	545.8	548.1	555.1	569.0	579.2	589.4	600.1	613.6	
Corporate profits tax accruals	50.1	58.6	59.4	47.8	58.7	45.5	45.2	49.8	49.7	51.2	50.4	49.7	51.5	55.0	61.0	63.4	
Economic Recovery Tax Act	-9.1	-17.1	-25.5	-10.0	-19.8	-8.4	-10.0	-11.2	-12.8	-15.4	-15.5	-21.6	-22.7	-25.2	-25.1	-27.1	
Tax Equity and Fiscal Responsibility Act	1.3	5.7	14.7	2.8	10.8	1.4	1.6	2.3	4.0	9.4	10.3	10.9	11.9	14.1	15.8	17.3	
Highway Revenue Act		-1	-		-1					-1	-1	-1	-1	-	-	-	
Legislation proposed			-2		-								-1	-	-	-	
Other	57.9	59.0	70.4	55.1	60.0	55.5	55.7	58.7	58.5	67.9	58.8	60.4	63.8	67.8	72.4	73.6	
Indirect business tax and nontax accruals	58.7	58.2	58.3	59.0	57.6	48.7	49.8	50.8	50.7	58.0	59.7	58.8	58.7	59.2	59.5	59.8	
Economic Recovery Tax Act	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Tax Equity and Fiscal Responsibility Act	-1	4.0	6.2	-4	4.0					4.8	4.9	5.8	5.8	5.4	5.3	5.8	
Highway Revenue Act		2.5	5.4		4.2					6.1	5.3	5.4	5.4	5.4	5.5	5.5	
Other	51.2	49.1	48.3	59.4	49.2	48.5	49.8	51.9	50.2	46.9	49.4	49.2	49.0	49.1	49.2	49.3	
Social insurance contributions	216.1	209.8	208.5	210.6	208.5	214.9	216.2	217.6	217.7	229.1	233.6	236.8	240.4	245.1	248.2	278.0	
Economic Recovery Tax Act	-4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Tax Equity and Fiscal Responsibility Act		2.9	4.4		3.9					3.7	3.7	4.0	4.2	4.5	4.4	4.6	
Legislation proposed			11.0		5.8								2.3	13.9	13.9	14.4	
Other	214.7	208.4	206.7	210.1	208.5	214.4	216.7	217.0	217.2	224.9	232.9	236.8	240.4	245.4	248.3	278.4	
Expenditures	739.7	829.0	877.3	862.7	848.9	728.8	728.8	728.8	749.7	818.2	822.0	825.4	859.9	881.0	877.3	894.2	
Purchases of goods and services	350.1	379.0	366.5	257.7	255.2	249.7	244.4	250.0	271.9	278.9	272.9	280.0	300.9	324.4	297.8	288.9	
National defense	175.9	199.4	229.0	178.6	207.1	169.2	179.2	182.7	189.4	198.2	202.1	210.3	219.7	236.2	252.3	237.8	
Pay raise: October 1982		2.2	2.2	-	2.2				2.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2	
Other	173.9	197.2	226.8	176.1	204.9	166.2	176.2	182.7	187.4	194.8	199.9	208.1	217.5	234.0	250.1	235.6	
Nonddefense	17.1	79.6	73.5	79.1	75.1	83.5	69.2	76.3	82.5	82.7	70.7	77.7	81.2	76.2	85.6	71.1	
Pay raise: October 1982		4.4	-1.4	9.0	1.8	12.1	-	-	7.4	17.1	9.0	-6.6	-1.0	4.5	1.3	-2.4	
Commodity Credit Corporation		-1.2	-2.3	-	-3.1				-	-	-	-1.5	-3.2	-3.5	-3.7	-3.9	
Payments in kind		5.6	2.4	9.0	8.6	12.1	-	-	7.4	17.1	9.0	-5.8	1.9	8.0	4.0	-4.6	
Other	7.4	5.6	2.4	9.0	8.6	12.1	-	-	7.4	17.1	9.0	-5.8	1.9	8.0	4.0	-4.6	
Strategic petroleum reserve	2.8	1.6	1.9	2.2	1.7	2.7	2.2	2.2	1.8	2.2	1.9	1.4	1.8	1.9	1.9	2.0	
Other	68.9	72.6	72.2	87.7	74.8	68.7	68.8	67.1	68.5	71.1	75.1	75.0	74.1	72.2	71.2	71.3	
Transfer payments	310.8	348.6	367.4	321.9	309.4	303.2	312.9	327.4	344.3	348.5	350.8	352.2	349.3	359.8	369.9	381.5	
To persons	304.8	342.2	368.9	315.9	308.1	297.2	307.9	321.8	337.5	340.5	344.4	345.9	341.5	353.8	364.4	385.0	
Social security	198.6	217.6	234.2	204.5	219.2	194.7	197.6	209.2	228.6	215.4	217.9	220.5	222.1	224.8	227.9	241.4	
Benefit increases		10.9	10.9	5.5	10.9			10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	
July 1982			6.2														
January 1984			6.2														
Other	198.8	206.7	217.1	199.9	206.8	184.7	197.5	198.2	205.7	204.5	207.0	209.6	212.2	215.6	218.8	221.8	
Unemployment benefits	21.6	34.4	28.7	24.9	35.5	18.6	32.5	25.5	32.0	33.4	33.8	34.6	38.7	23.1	28.9	23.7	
Extended	1.8	4.4	2.4	2.1	4.4	1.0	2.9	2.5	2.7	4.9	5.2	4.0	2.9	3.8	2.5	-	
Federal supplemental compensation		4.3		1.2	3.2			2	4.5	5.1	4.5	3.1					
Other	19.8	25.7	24.3	21.6	28.0	17.6	29.6	22.7	24.9	35.4	26.1	26.7	25.2	24.8	23.6	22.8	
Other	84.6	30.2	30.0	56.9	90.3	68.9	65.8	37.1	38.9	38.7	30.7	30.7	30.0	30.4	30.2	30.3	
To foreigners	5.0	5.4	6.5	6.1	8.3	4.0	5.8	5.6	6.8	6.0	6.2	5.4	6.5	6.5	6.5	6.5	
Grants-in-aid to State and local govern-																	
ments	51.4	58.9	50.1	55.5	58.3	50.0	55.0	52.9	54.0	55.5	55.1	59.2	59.5	50.9	56.1	50.4	
Public assistance	27.9	29.5	30.3	29.4	29.9	27.7	29.4	27.5	28.7	29.5	29.3	30.8	30.2	30.2	30.4	30.4	
Highways	7.6	8.2	11.3	7.7	8.3	5.9	8.1	7.9	7.9	7.4	8.2	9.2	10.2	11.4	11.7	11.9	
Highway Revenue Act		4	8.1		1.0							4	1.2	2.4	3.3	3.4	
Other	7.6	7.8	3.2	7.7	7.3	6.9	8.1	7.9	7.9	7.6	7.8	8.0	7.8	8.2	8.3	8.5	
Other	48.0	43.2	48.6	47.4	49.6	48.4	47.5	46.3	47.4	48.6	48.1	49.1	48.4	48.0	48.1	48.1	
Net interest paid	82.6	82.4	106.6	84.9	95.3	79.4	82.8	83.7	88.6	90.8	93.9	97.0	100.7	104.6	105.5	112.0	
Subsidies less current surplus of govern-																	
ment enterprises	13.8	22.1	28.7	14.5	21.6	12.7	11.5	12.6	21.5	20.1	28.2	24.5	21.6	20.5	19.9	20.3	
Agriculture																	
Commodity Credit Corporation	2.3	4.4	2.9	3.8	4.0	1.7	1.5	2.4	5.7	4.9	2.8	5.1	4.0	2.9	1.9	2.8	
Payments to farmers	1.8	7.1	6.9	8.9	6.6	2.7	1.6	3	6.9	6.0	6.8	7.2	6.5	6.5	6.7	6.7	
Payments in kind		1.2	5.8		2.1					1.6	3.2	3.6	3.7	3.9	4.1	4.1	
Other	1.8	5.9	2.8	2.9	4.6	2.7	1.6	3	6.9	6.0	6.8	7.2	6.5	6.5	6.7	6.7	
Postal Service	-	-	1.4	1	1.0	-	-	-	2	-	-	1.7	1.1	1.3	1.5	1.7	
Housing	3.1	10.4	11.2	5.5	10.9	8.6	8.8	8.7	8.8	10.2	11.0	11.2	11.2	11.2	11.2	11.2	
Other	3	-	-1.4	2	-9	5	1	3	-1	-6	-3	-1	-1.2	-1.4	-1.4	-1.5	
Less: Wage accruals less disbursements	-1					-2											
Surplus or deficit (-)	-120.7	-200.5	-191.1	-145.3	-209.9	-118.4	-129.6	-166.9	-198.9	-198.5	-196.1	-211.7	-209.5	-197.3	-198.0	-175.3	

Note.—Fiscal year totals are based on unaudited data and will not always conform to the average of four seasonally adjusted quarters.

increase accounts for over 60 percent of the total increase. Social security benefits together with military and civilian pensions contribute \$18.5 billion; net interest paid, \$14.2 billion; and highway grants, \$3.1 billion. Partly offsetting these increases are declines in unemployment benefits, in all other nondefense expenditures, and in agricultural purchases by the Commodity Credit Corporation (chart 3).

Table 9 shows the relation between national defense outlays in the unified budget and national defense purchases on the NIPA basis. In 1984, outlays, which are recorded on a checks issued basis, increase slightly more than purchases, which are recorded largely on a delivery basis. The larger increase in outlays reflects the steep increase in procurement of military hardware, for which checks are issued prior to delivery.

Quarterly pattern.—On a quarterly basis, the Federal deficit increases in the third quarter of 1983 when income tax withholding rates are cut for the final stage under ERTA. The introduction of withholding for interest and dividend income on July 1, 1983 partly offsets the rate cut. The deficit declines steadily thereafter, partly reflecting enacted and proposed tax increases (table 10).

The quarterly pattern is estimated by BEA with the cooperation of the Office of Management and Budget, the Social Security Administration, and the Departments of Agriculture, Labor, and Treasury. Receipts reflect the pattern of enacted and proposed tax changes and the administration's projected quarterly pattern of wages and profits. Expenditures reflect the pattern of proposed legislation and selected other items, such as cost-of-living increases in retirement benefits. All estimates are seasonally adjusted at annual rates.

High-employment surplus or deficit.—The high-employment surplus is an estimate of the amount by which Federal revenues would exceed Federal expenditures if the economy were operating at a high-employment level of activity at current price levels. Consequently, cyclical fluctuations in the economy do not affect high-employment budget receipts or expendi-

Commodity Credit Corporation Expenditures, NIPA Basis

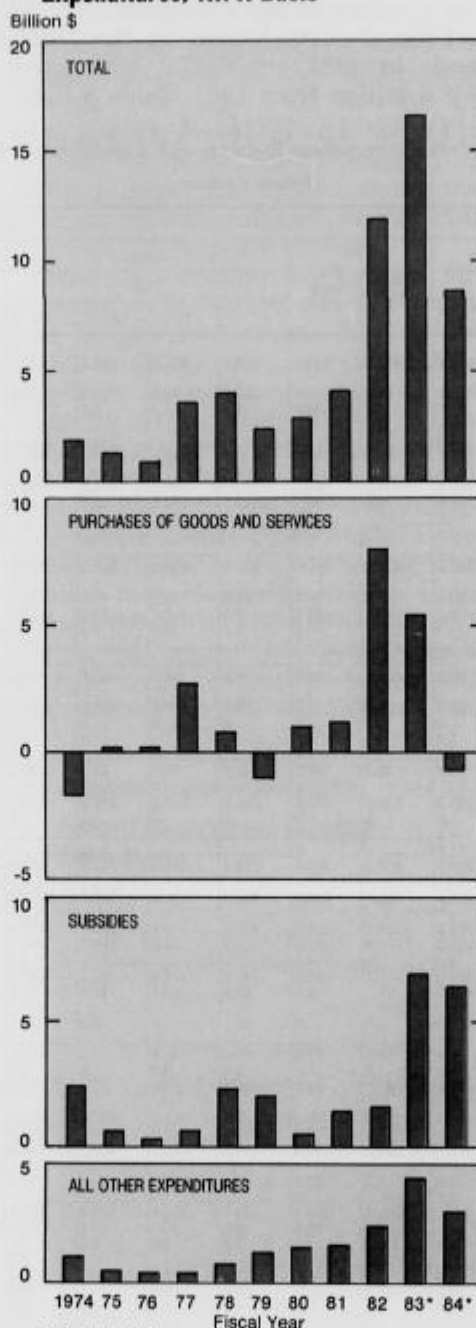


Table 11.—High-Employment Surplus or Deficit (—), NIPA Basis

(Billions of dollars)

Calendar year:	Level ¹	Change	Addendum: High-employment surplus or deficit (—) with a 6-percent unemployment rate	
			Level	Change
1981	4.5	21.6	-16.8	17.8
1982	-27.2	-31.7	-52.8	-36.0
1983	-42.3	-15.1	-71.1	-18.3
Quarters:				
1981: I	10.4	21.0	-9.3	20.2
II	22.0	11.6	9	10.2
III	5.9	-16.1	-16.0	-16.9
IV	-20.3	-26.2	-42.7	-26.7
1982: I	-15.6	4.7	-39.6	3.1
II	-6.2	9.4	-31.0	8.6
III	-32.8	-26.6	-58.3	-27.3
IV	-54.2	-21.4	-82.4	-24.1
1983: I	-37.6	16.6	-65.3	17.1
II	-24.6	13.0	-53.3	12.0
III	-53.1	-28.5	-82.3	-29.0
IV	-53.8	-7	-83.7	-1.4
1984: I	-39.7	14.1	-71.1	12.6
II	-23.9	15.8	-56.6	14.5
III	-21.5	2.4	-55.6	1.0

1. Based on a high-employment unemployment rate of 5.1 percent for 1981:1-1981:4, 5.0 percent for 1982:1-1983:1, and 4.9 percent for 1983:2-1984:3.

As measured on a high-employment basis, the Federal sector of the NIPA's was in slight surplus in calendar year 1981 and swung to deficit in 1982; the deficit will widen in 1983 by \$15 billion (table 11 and chart 1). On a quarterly basis, the high-employment budget swung to deficit in the fourth quarter of 1981, when income tax withholding rates were first cut under ERTA. The deficit declined thereafter, but increased in the third quarter of 1982 when the second stage of rate cuts became effective. The deficit declines in the first half of 1983 but increases in the second, when the final withholding rate cut under ERTA becomes effective; thereafter it declines.

The high-employment deficit discussed above is based on a high-employment unemployment rate that is 5.1 percent in 1981, declines to 4.9 percent by mid-1983, and remains flat thereafter. Table 11 also shows what the high-employment surplus or deficit would be assuming a high-employment unemployment rate of 6 percent throughout the 1981-84 period. On this basis, the high-employment deficit is \$20 billion to \$30 billion higher, but follows the same quarterly pattern.